



6450-01-P

DEPARTMENT OF ENERGY

Bonneville Power Administration

BPA File No.: BP-18

Fiscal Year (FY) 2018–2019 Proposed Power and Transmission Rate Adjustments

Public Hearing and Opportunities for Public Review and Comment

**AGENCY:** Bonneville Power Administration (BPA or Bonneville), Department of Energy (DOE).

**ACTIONS:** Notice of FY 2018–2019 Proposed Power and Transmission Rate Adjustments.

**SUMMARY:** BPA is holding a consolidated rate proceeding, Docket No. BP-18, to establish power and transmission rates for FY 2018–2019.

The Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act) provides that BPA must establish and periodically review and revise its rates so that they recover, in accordance with sound business principles, the costs associated with the acquisition, conservation, and transmission of electric power, including amortization of the Federal investment in the Federal Columbia River Power System (FCRPS) over a reasonable number of years, and BPA's other costs and expenses. The Northwest Power Act requires that BPA's rates be established based on the record of a formal hearing. For transmission rates only, the Northwest Power Act requires that the costs of the Federal transmission system be equitably allocated between Federal and non-Federal power utilizing the system. By this notice, BPA announces the commencement of a power and transmission rate adjustment proceeding for power, transmission, ancillary, and control area services rates to be effective on October 1, 2017.

**DATES:** Anyone wishing to become a party to the BP-18 proceeding must provide written notice by U.S. Mail or electronic mail. BPA must receive such notice no later than 3:00 p.m. on November 18, 2016.

The BP-18 rate adjustment proceeding begins with a prehearing conference at 9:00 a.m. on November 17, 2016, in the BPA Rates Hearing Room, 1201 NE Lloyd Boulevard, Suite 200, Portland, Oregon 97232.

Written comments by non-party participants must be received by February 17, 2017, to be considered in the Administrator's Record of Decision (ROD).

**ADDRESSES:**

1. Petitions to intervene should be directed to: Hearing Clerk – L-7, Bonneville Power Administration, 905 NE 11th Avenue, Portland, Oregon 97232 or may be emailed to [rateclerk@bpa.gov](mailto:rateclerk@bpa.gov). In addition, copies of the petition must be served concurrently on BPA's General Counsel and directed to both Mr. Kurt Casad, LP-7, and Mr. Matthew Perkins, LT-7, Office of General Counsel, 905 NE 11th Avenue, Portland, Oregon 97232, or by email to [krcasad@bpa.gov](mailto:krcasad@bpa.gov) and [mwperkins@bpa.gov](mailto:mwperkins@bpa.gov) (see section III.A. for more information regarding interventions).

2. Written comments by participants should be submitted to BPA Public Involvement, Bonneville Power Administration, P.O. Box 14428, Portland, Oregon 97293. Participants may also submit comments electronically at [www.bpa.gov/comment](http://www.bpa.gov/comment). BPA requests that all comments and documents intended to be part of the Official Record in this rate proceeding contain the designation BP-18 in the subject line.

**FOR FURTHER INFORMATION CONTACT:** Ms. Ebony Amato, DKE-7, BPA

Communications, Bonneville Power Administration, P.O. Box 3621, Portland, Oregon 97208; by phone toll free at 1-800-622-4520; or by email to [elamato@bpa.gov](mailto:elamato@bpa.gov).

Responsible Officials: Mr. Daniel H. Fisher, Power Rates Manager, is the official responsible for the development of BPA's power rates, and Ms. Rebecca E. Fredrickson, Transmission Rates Manager, is the official responsible for the development of BPA's transmission, ancillary, and control area services rates.

**SUPPLEMENTARY INFORMATION:**

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**Part I – Introduction and Procedural Background**

Section 7(i) of the Northwest Power Act, 16 U.S.C. § 839e(i), requires that BPA's rates be established according to certain procedures, including publication in the Federal Register of this notice of the proposed rates; one or more hearings conducted as expeditiously as practicable by a Hearing Officer; opportunity for both oral presentation and written submission of views, data, questions, and arguments related to the proposed rates; and a decision by the Administrator based on the record. BPA's rate proceedings are further governed by BPA's Procedures Governing Bonneville Power Administration Rate Hearings, 51 Federal Register 7611 (1986),

which implement and expand the statutory requirements.

This proceeding is being conducted under the rule for general rate proceedings, section 1010.4 of BPA's Procedures. A proposed schedule for the proceeding is provided below. A final schedule will be established by the Hearing Officer at the prehearing conference.

Prehearing Conference/ BPA Initial Proposal	November 17, 2016
Parties File Petitions to Intervene	November 18, 2016
Clarification	December 6-7, 2016
Motions to Strike	December 16, 2016
Data Request Deadline	December 16, 2016
Answers to Motions to Strike Due	January 10, 2017
Data Response Deadline	January 10, 2017
Parties File Direct Cases	January 31, 2017
Clarification	February 7-8, 2017
Motions to Strike Due	February 14, 2017
Data Request Deadline	February 14, 2017
Close of Participant Comments	February 17, 2017
Answers to Motions to Strike Due	February 21, 2017
Data Response Deadline	February 21, 2017
Litigants File Rebuttal Cases	March 14, 2017
Clarification	March 20, 2017
Motions to Strike Due	March 24, 2017

Data Request Deadline	March 24, 2017
Answers to Motions to Strike Due	March 31, 2017
Data Response Deadline	March 31, 2017
Parties Give Notice of Intent to Cross-Examine	March 31, 2017
Cross-Examination	April 6-7, 2017
Initial Briefs Filed	May 2, 2017
Oral Argument	May 9, 2017
Draft ROD issued	June 13, 2017
Briefs on Exceptions Filed	June 30, 2017
Final ROD and Final Studies issued	July 26, 2017

Section 1010.7 of BPA's Procedures prohibits *ex parte* communications. The *ex parte* rule applies to all BPA and DOE employees and contractors. Except as provided below, any outside communications with BPA and/or DOE personnel regarding the merits of any issue in BPA's rate proceeding by other Executive Branch agencies, Congress, existing or potential BPA customers (including tribes), or nonprofit or public interest groups are considered outside communications and are subject to the *ex parte* rule. The rule does not apply to communications relating to (1) matters of procedure only (the status of the rate proceeding, for example); (2) exchanges of data in the course of business or under the Freedom of Information Act; (3) requests for factual information; (4) matters for which BPA is responsible under statutes other than the ratemaking provisions; or (5) matters which all parties agree may be made on an *ex parte* basis. The *ex parte* rule remains in effect until the Administrator's Final ROD is issued, which is scheduled to occur on or about July 26, 2017.

## **Part II – Scope of BP-18 Rate Proceeding**

### **A. Joint Rate Proceeding**

BPA is holding one power and transmission rate proceeding with one procedural schedule, one record, and one ROD.

### **B. 2016 Integrated Program Review**

BPA began its 2016 Integrated Program Review (IPR) and Capital Investment Review (CIR) process in June 2016. The IPR/CIR process is designed to allow an opportunity to review and comment on BPA's expense and capital spending level estimates before the spending levels are used to set rates. On October 12, 2016, BPA issued the Final Close-Out Report for the IPR/CIR process. In the Final Close-Out Report, BPA established the program level cost estimates that are used in the BP-18 Initial Proposal. Starting this fall, BPA will engage customers and stakeholders in a discussion to consider additional cost management alternatives which, if adopted, would be reflected in BPA's final rates.

### **C. Scope of the Rate Proceeding**

This section provides guidance to the Hearing Officer as to those matters that are within the scope of the rate proceeding and those that are outside the scope. In addition to the items listed below, any other issue that is not a ratemaking issue is outside the scope of this proceeding.

#### **1. Program Cost Estimates**

Some of the decisions that determine program costs and spending levels have been made in the IPR/CIR public review process outside the rate proceeding. See section II.B. BPA's

spending levels for investments and expenses are not determined or subject to review in rate proceedings.

Pursuant to section 1010.3(f) of BPA's Procedures, the Administrator directs the Hearing Officer to exclude from the record all argument, testimony, or other evidence that challenges the appropriateness or reasonableness of the Administrator's decisions on cost and spending levels. If any re-examination of spending levels is necessary, such re-examination will occur outside of the rate proceeding. The above exclusion does not extend to those portions of the revenue requirements related to interest rate forecasts, interest expense and credit, Treasury repayment schedules, forecasts of depreciation and amortization expense, forecasts of system replacements used in repayment studies, Residential Exchange Program benefits, purchased power expenses, transmission acquisition expense incurred by Power Services, generation acquisition expense incurred by Transmission Services, minimum required net revenue, use of financial reserves, and the costs of risk mitigation actions resulting from the expense and revenue uncertainties included in the risk analysis. The Administrator also directs the Hearing Officer to exclude argument and evidence regarding BPA's debt management practices and policies. See section II.C.5.

## 2. Tiered Rate Methodology (TRM)

The TRM restricts BPA and customers with Contract High Water Mark (CHWM) contracts from proposing changes to the TRM's ratesetting guidelines unless certain procedures have been successfully concluded. No proposed changes have been subjected to the required procedures.

Pursuant to § 1010.3(f) of BPA's Procedures, the Administrator hereby directs the Hearing Officer to exclude from the record all argument, testimony, or other evidence that seeks in any way to propose revisions to the TRM made by BPA, customers with a CHWM contract,

or their representatives. This restriction does not extend to a party or customer that does not have a CHWM contract.

### 3. Service to the Direct Service Industries (DSIs)

The level and method of service to DSIs during the FY 2018–2019 rate period are established in existing contractual arrangements with Alcoa, Inc. and Port Townsend Paper Corporation. Neither the contracts nor the records of decision supporting those contracts were subject to any petition for review in the Ninth Circuit. For this reason, pursuant to § 1010.3(f) of BPA’s Procedures, the Administrator directs the Hearing Officer to exclude from the record all argument, testimony, or other evidence that seeks in any way to revisit the appropriateness or reasonableness of BPA’s decisions regarding service to the DSIs, including BPA’s decision to offer contracts to the DSIs and the method, level of service, or other terms embodied in the existing contracts with Alcoa and Port Townsend.

### 4. Generation Inputs

BPA provides a portion of the available generation from the FCRPS to enable Transmission Services to meet its various requirements. Transmission Services uses these generation inputs to provide ancillary and control area services.

Pursuant to § 1010.3(f) of BPA’s Procedures, the Administrator directs the Hearing Officer to exclude from the record all argument, testimony, or other evidence that seeks in any way to revisit issues regarding reliability of the transmission system, dispatcher standing orders, e-Tag requirements and definitions, open access transmission tariff (OATT) provisions, and business practices. These non-rates issues are generally addressed by BPA in accordance with industry, reliability, and other compliance standards and criteria and are not matters appropriate for the rate proceeding.



## 5. Federal and Non-Federal Debt Service and Debt Management

During the 2016 IPR/CIR process and in other forums, BPA provided the public with background information on BPA's internal Federal and non-Federal debt management policies and practices. While these policies and practices are not decided in the IPR/CIR forum, these discussions were intended to inform interested parties about these matters so the parties would better understand BPA's debt structure. BPA's debt management policies and practices remain outside the scope of the rate proceeding.

Pursuant to § 1010.3(f) of BPA's Procedures, the Administrator hereby directs the Hearing Officer to exclude from the record all argument, testimony, or other evidence that seeks in any way to address the appropriateness or reasonableness of BPA's debt management policies and practices. This exclusion does not encompass how debt management actions are reflected in ratemaking.

## 6. Potential Environmental Impacts

Environmental impacts are addressed in a National Environmental Policy Act (NEPA) process BPA conducts concurrent with the rate proceeding. See section II.D.

Pursuant to § 1010.3(f) of BPA's Procedures, the Administrator directs the Hearing Officer to exclude from the record all argument, testimony, or other evidence that seeks in any way to address the potential environmental impacts of the rates being developed in this rate proceeding.

## 7. 2008 Average System Cost Methodology (2008 ASCM) and Average System Cost Determinations

Section 5(c) of the Northwest Power Act established the Residential Exchange Program, which provides benefits to residential and farm consumers of Pacific Northwest utilities based, in

part, on a utility's "average system cost" (ASC) of resources. On September 4, 2009, the Federal Energy Regulatory Commission (Commission) granted final approval of BPA's 2008 ASCM.

The 2008 ASCM is not subject to challenge or review in a section 7(i) proceeding.

Determinations of the ASCs of participating utilities are made in separate processes conducted pursuant to the ASCM. Those processes began with ASC filings on June 1, 2016, and are continuing through July 2017. The determinations of ASCs are not subject to challenge or review in a section 7(i) proceeding.

Pursuant to § 1010.3(f) of BPA's Procedures, the Administrator hereby directs the Hearing Officer to exclude from the record all argument, testimony, or other evidence that seeks in any way to visit or revisit the appropriateness or reasonableness of the 2008 ASCM or that seeks in any way to visit or revisit the appropriateness or reasonableness of any of the ongoing ASC determinations.

#### 8. Rate Period High Water Mark (RHWM) Process

The RHWM Process preceded the BP-18 rate proceeding. In that process, as directed by the TRM, BPA established FY 2018–2019 RHWMs for Public customers that signed contracts for firm requirements power service providing for tiered rates, referred to as CHWM contracts. BPA established the maximum planned amount of power a customer is eligible to purchase at Tier 1 rates during the rate period, the Above-RHWM Loads for each customer, the System Shaped Load for each customer, the Tier 1 System Firm Critical Output, RHWM Augmentation, the Rate Period Tier 1 System Capability (RT1SC), and the monthly/diurnal shape of RT1SC. The RHWM Process provided customers an opportunity to review, comment on, and challenge BPA's RHWM determinations.

Pursuant to § 1010.3(f) of BPA's Procedures, the Administrator hereby directs the Hearing Officer to exclude from the record all argument, testimony, or other evidence that seeks in any way to visit or revisit BPA's determination of a customer's FY 2018–2019 RHW or other RHW Process determinations.

9. 2012 Residential Exchange Program Settlement Agreement (2012 REP Settlement)

On July 26, 2011, the Administrator executed the 2012 REP Settlement, which resolved longstanding litigation over BPA's implementation of the Residential Exchange Program (REP) under section 5(c) of the Northwest Power Act, 16 U.S.C. § 839c(c). The Administrator's findings regarding the legal, factual, and policy challenges to the 2012 REP Settlement are explained in the REP-12 Record of Decision (REP-12 ROD). The 2012 REP Settlement and REP-12 ROD were approved by U.S. Court of Appeals for the Ninth Circuit in *Association of Public Agency Customers v. Bonneville Power Administration*, 733 F.3d 939 (9th Cir. 2013). Because the 2012 REP Settlement was part of the REP-12 ROD and was approved by the Court, challenges to BPA's decision to adopt the 2012 REP Settlement and implement its terms in BPA's rate proceedings are not within the scope of this proceeding. Pursuant to § 1010.3(f) of BPA's Procedures, the Administrator hereby directs the Hearing Officer to exclude from the record all argument, testimony, or other evidence that seeks in any way to visit or revisit BPA's determination to adopt the 2012 REP Settlement or its terms in this rate proceeding.

10. Financial Reserves Policy

BPA is proposing in this rate case a policy to establish targets (and upper and lower thresholds) for financial reserves for each of its business units and the agency as a whole. BPA's financial policies are normally not within the scope of BPA's rate cases; however, for administrative convenience BPA is using the BP-18 rate case process to develop the Financial

Reserves Policy in lieu of conducting a parallel, but separate, public process. Therefore, the Financial Reserves Policy, and its implementation in the BP-18 rates, is within the scope of this rate proceeding.

#### 11. Oversupply Management Protocol

The proposed OS-18 Oversupply rate is a formula rate designed to recover BPA's oversupply costs. BPA incurs oversupply costs pursuant to the Oversupply Management Protocol, Attachment P of BPA's OATT. Under the proposed formula rates, BPA would recover actual costs incurred during the BP-18 rate period rather than forecast costs, therefore avoiding the need to perform a later true-up between forecast costs and actual costs. Pursuant to Rule 1010.3(f) of BPA's Procedures, the Administrator limits the scope of this proceeding to issues concerning the rates for recovering the costs of the Oversupply Management Protocol. In particular, the following issues are not part of the scope of the case, and the Hearing Officer is directed to strike all argument, testimony, or other evidence concerning these issues: the terms of the Oversupply Management Protocol; whether the Oversupply Management Protocol complies with orders of the Commission; and whether BPA took all actions to avoid using the Oversupply Management Protocol, including the payment of negative prices to generators outside of BPA's balancing authority area.

#### 12. Power Product Switching

On July 18, 2016, BPA issued a letter informing interested parties that Seattle City Light (Seattle) and Klickitat PUD (Klickitat) had requested an early change in their purchase obligations under their Regional Dialogue Power Sales Agreements (Regional Dialogue contracts). In the letter, BPA included its analysis of the proposed early change in purchase obligations and solicited comments from customers and other interested parties. On August 26,

2016, BPA issued a decision letter allowing Seattle and Klickitat to change their purchase obligations from the Slice/Block product to the Block product and Load Following product, respectively, effective October 1, 2017.

Because BPA has already issued a decision document on Seattle and Klickitat's request for an early change in purchase obligations under their Regional Dialogue contracts, this issue is not within the scope of this proceeding. Pursuant to § 1010.3(f) of BPA's Procedures, the Administrator hereby directs the Hearing Officer to exclude from the record all argument, testimony, or other evidence that seeks in any way to visit or revisit BPA's determination to grant Seattle and Klickitat's request for a change in purchase obligations in this rate proceeding.

D. The National Environmental Policy Act (NEPA)

BPA is in the process of assessing the potential environmental effects of its proposed power and transmission rates, consistent with NEPA. The NEPA process is conducted separately from the rate proceeding. As discussed in section II.C.6., all evidence and argument addressing potential environmental impacts of rates being developed in the BP-18 rate proceeding are excluded from the rate proceeding record. Instead, comments on environmental effects should be directed to the NEPA process.

Because this proposal involves BPA's ongoing business practices related to rates, BPA is reviewing the proposal for consistency with BPA's Business Plan Environmental Impact Statement (Business Plan EIS), completed in June 1995 (BOE/EIS-0183). This policy-level EIS evaluates the environmental impacts of a range of business plan alternatives for BPA that could be varied by applying various policy alternatives, including one for rates. Any combination of alternative policy choices should allow BPA to balance its costs and revenues. The Business

Plan EIS also includes response strategies, such as adjustments to rates, that BPA could implement if BPA's costs exceed its revenues.

In August 1995, the BPA Administrator issued a ROD (Business Plan ROD) that adopted the Market-Driven Alternative from the Business Plan EIS. This alternative was selected because, among other reasons, it allows BPA to (1) recover costs through rates; (2) competitively market BPA's products and services; (3) develop rates that meet customer needs for clarity and simplicity; (4) continue to meet BPA's legal mandates; and (5) avoid adverse environmental impacts. BPA also committed to apply as many response strategies as necessary when BPA's costs and revenues do not balance.

In April 2007, BPA completed and issued a Supplement Analysis to the Business Plan EIS. This Supplement Analysis found that the Business Plan EIS's relationship-based and policy-level analysis of potential environmental impacts from BPA's business practices remains valid and that BPA's current business practices remain consistent with BPA's Market-Driven Alternative approach. The Business Plan EIS and ROD thus continue to provide a sound basis for making determinations under NEPA concerning BPA's policy-level decisions, including rates.

Because the proposed rates likely would assist BPA in accomplishing the goals identified in the Business Plan ROD, the proposal appears consistent with these aspects of the Market-Driven Alternative. In addition, this rate proposal is similar to the type of rate designs evaluated in the Business Plan EIS; thus, implementation of this rate proposal would not be expected to result in environmental impacts significantly different from those examined in the Business Plan EIS. Therefore, BPA expects that this rate proposal will likely fall within the scope of the

Market-Driven Alternative that was evaluated in the Business Plan EIS and adopted in the Business Plan ROD.

As part of the Administrator's ROD that will be prepared for the BP-18 rate proceeding, BPA may tier its decision under NEPA to the Business Plan ROD. However, depending upon the ongoing environmental review, BPA may instead issue another appropriate NEPA document. Comments regarding the potential environmental effects of the proposal may be submitted to Stacy Mason, NEPA Compliance Officer, ECP-4, Bonneville Power Administration, 905 NE 11th Avenue, Portland, Oregon 97232. Any such comments received by the comment deadline for Participant Comments identified in section III.A. below will be considered by BPA's NEPA compliance staff in the NEPA process that is being conducted for this proposal.

### **Part III – Public Participation in BP-18**

#### **A. Distinguishing Between “Participants” and “Parties”**

BPA distinguishes between “participants in” and “parties to” the hearings. Separate from the formal hearing process, BPA will receive written comments, views, opinions, and information from participants, who may submit comments without being subject to the duties of, or having the privileges of, parties. Participants' written comments will be made part of the official record and considered by the Administrator. Participants are not entitled to participate in the prehearing conference; may not cross-examine parties' witnesses, seek discovery, or serve or be served with documents; and are not subject to the same procedural requirements as parties. BPA customers whose rates are subject to this proceeding, or their affiliated customer groups, may not submit participant comments. Members or employees of organizations that have intervened in the rate proceeding may submit participant comments as private individuals

(that is, not speaking for their organizations) but may not use the comment procedures to address specific issues raised by their intervenor organizations.

Written comments by participants will be included in the record if they are received by February 17, 2017. Written views, supporting information, questions, and arguments should be submitted to the address listed in the “ADDRESSES” section of this notice.

An entity or person becomes a party to the proceeding by filing a petition to intervene, which must state the name and address of the entity or person requesting party status and the entity’s or person’s interest in the hearing. BPA customers and affiliated customer groups will be granted intervention based on petitions filed in conformance with BPA’s Procedures. Other petitioners must explain their interests in sufficient detail to permit the Hearing Officer to determine whether the petitioners have a relevant interest in the hearing. Pursuant to Rule 1010.1(d) of BPA’s Procedures, BPA waives the requirement in Rule 1010.4(d) that an opposition to an intervention petition be filed and served 24 hours before the prehearing conference. The time limit for opposing a timely intervention will be established at the prehearing conference. Any party, including BPA, may oppose a petition for intervention. All petitions will be ruled on by the Hearing Officer. Late interventions are strongly disfavored. Opposition to an untimely petition to intervene must be filed and received by BPA within two days after service of the petition.

#### B. Developing the Record

The hearing record will include, among other things, the transcripts of the hearing, written evidence and argument entered into the record by BPA and the parties, written comments from participants, and other material accepted into the record by the Hearing Officer. The



Hearing Officer will review the record and certify the record to the Administrator for final decision.

The Administrator will develop final rates based on the record and such other materials and information as may have been submitted to or developed by the Administrator. The Administrator will serve copies of the Final ROD on all parties. BPA will file its rates with the Commission for confirmation and approval after issuance of the Final ROD.

#### **Part IV – Summary of Rate Proposals**

##### **A. Summary of the Power Rate Proposal**

BPA is proposing four rates for Federal power sales and services:

Priority Firm Power Rate (PF-18) – The PF rate schedule applies to net requirements power sales to public body, cooperative, and Federal agency customers made pursuant to section 5(b) of the Northwest Power Act. It also includes the PF Public rates for the sale of firm requirements power under CHWM contracts and the PF Exchange rates for sales under Residential Purchase and Sale Agreements. The PF Public rate applies to customers taking Load Following, Block, or Slice/Block service. Consistent with the TRM, Tier 1 rates include three charges: (1) customer charges; (2) a demand charge; and (3) a load shaping charge. In addition, four Tier 2 rates, corresponding to contract options, are applied to customers that have elected to purchase power from BPA for service to their Above-RHWM Load.

Because very few of BPA's customers are subject to exactly the same mix of PF rate components, BPA has developed a PF rate measure for an average customer purchasing at PF Tier 1 rates. This quantification, the Tier 1 Average Net Cost, is increasing from \$33.75/MWh for the PF-16 rate to \$34.94/MWh for the PF-18 rate, which is an increase of 3.5 percent for the

two-year rate period, or 1.7 percent on an average annual basis.

The Base PF Exchange rate and its associated surcharges apply to the sale of power to regional utilities that participate in the REP established under section 5(c) of the Northwest Power Act. 16 U.S.C. § 839c(c). The Base PF Exchange rate establishes the threshold for participation in the REP; only utilities with ASCs above the appropriate Base PF Exchange rate may receive REP benefits. If a utility meets the threshold, a utility-specific PF Exchange rate will be established in this proceeding for each eligible utility. The utility-specific PF Exchange rate is used in calculating the REP benefits each participant will receive during FY 2018–2019.

The proposed PF-18 rate schedule also includes resource support services rates for customers with non-Federal resources, and a melded PF rate for any Public customer that elects a power sales contract other than a CHWM contract for firm requirements service. Transfer service charges for delivery, operating reserves, and Western Electricity Coordinating Council (WECC) assessments are applicable to customers served under non-Federal transmission service agreements.

**New Resource Firm Power Rate (NR-18)** – The NR-18 rate applies to net requirements power sales to investor-owned utilities (IOUs) made pursuant to section 5(b) of the Northwest Power Act for resale to ultimate consumers; direct consumption; construction, testing and start-up; and station service. The NR-18 rate is also applied to sales of firm power to Public customers when this power is used to serve new large single loads. In addition, the NR rate schedule includes rates for services to support Public customers serving new large single loads with non-Federal resources. In the BP-18 Initial Proposal BPA is forecasting no sales at the NR rate. The average NR-18 rate in the Initial Proposal is \$79.63/MWh, an increase of 7.9 percent from the NR-16 rate.

Industrial Firm Power Rate (IP-18) – The IP rate is applicable to firm power sales to DSI customers authorized by section 5(d)(1)(A) of the Northwest Power Act. 16 U.S.C § 839c(d)(1)(A). In the Initial Proposal BPA is forecasting annual sales of 75 average megawatts (aMW) to DSIs at the IP rate. The average IP-18 rate in the Initial Proposal is \$42.82/MWh, an increase of 2.1 percent over the IP-16 rate.

Firm Power and Surplus Products and Services Rate (FPS-18) – The FPS rate schedule is applicable to sales of various surplus power products and surplus transmission capacity for use inside and outside the Pacific Northwest. The rates for these products are negotiated between BPA and the purchasers. The FPS-18 rate schedule also includes rates for customers with non-Federal resources; the Unanticipated Load Service rate; rates for other capacity, energy, and scheduling products and services; and rates for reserve services for use outside the BPA balancing authority area.

#### B. Summary of the Transmission Rate Proposal

BPA is proposing an overall 1.1 percent increase in transmission rates for the two-year rate period, or 0.5 percent on an average annual basis. BPA is proposing four rates for the use of its Network segment, four rates for use of intertie segments, and several other rates for various purposes. The four rates for use of the Network segment are:

Formula Power Transmission Rate (FPT-18) – The FPT rate is based on the cost of using specific types of facilities, including a distance component for the use of transmission lines, and is charged on a contract demand basis.

Integration of Resources Rate (IR-18) – The IR rate is a postage stamp, contract demand rate for use of the Network, similar to Point-to-Point (PTP) service (see below), and includes Scheduling, System Control, and Dispatch Service.

Network Integration Transmission Rate (NT-18) – The NT rate applies to customers taking network integration service under BPA’s OATT and allows customers to flexibly serve their retail load.

Point-to-Point Rate (PTP-18) – The PTP rate is a contract demand rate that applies to customers taking Point-to-Point service on BPA’s network facilities under the OATT. It provides customers with flexible service from identified Points of Receipt to identified Points of Delivery. There are separate PTP rates for long-term firm service, daily firm and non-firm service, and hourly firm and non-firm service.

BPA is proposing four rates for intertie use:

The Southern Intertie Rate (IS-18) is a contract demand rate that applies to customers taking Point-to-Point service under BPA’s OATT on the Southern Intertie. BPA is proposing to recognize a reduction in the number of high demand hours which results in a 225 percent increase in the Southern Intertie hourly rate.

The Montana Intertie Rate (IM-18) applies to customers taking Point-to-Point service on the Eastern Intertie.

The Townsend-Garrison Transmission Rate (TGT-18) is a rate for firm service over BPA’s section of the Montana Intertie and is available to parties to the Montana Intertie Agreement.

The Eastern Intertie Rate (IE-18) is a rate for non-firm service on the portion of the Eastern Intertie capacity that exceeds BPA’s firm transmission rights and is available to parties to the Montana Intertie Agreement.

Other proposed transmission rates are:

The Use-of-Facilities Rate (UFT-18) establishes a formula rate for the use of a specific facility based on the annual cost of that facility.

The Advance Funding Rate (AF-18) allows BPA to collect the capital and related costs of specific facilities through an advance-funding mechanism.

The Scheduling, System Control, and Dispatch Service Rate and the Reactive Supply and Voltage Control from Generation Sources Service Rate are required ancillary services for transmission service on the Network, the Southern Intertie, and the Montana Intertie.

The WECC and Peak rates (PW-18) are rates for costs assessed to BPA to cover WECC and Peak reliability functions.

The Oversupply Rate (OS-18) recovers the costs BPA incurs to displace generation under the Oversupply Management Protocol, Attachment P to BPA's OATT.

Other charges that may apply include a Delivery Charge for the use of low-voltage delivery substations; a Reservation Fee for customers that postpone their service commencement dates; incremental rates for transmission requests that require new facilities; a penalty charge for failure to comply with dispatch, curtailment, redispatch, or load shedding orders; and an Unauthorized Increase Charge for customers whose use exceeds their contracted amounts.

#### C. Ancillary Service and Control Area Service Rates

Beginning in January 2016, BPA held rate case workshops and solicited stakeholder comments concerning generation inputs issues that form the foundation of most ancillary service and control area service rates. Starting in the summer of 2016, BPA and stakeholders developed a settlement agreement that would set the rates for most ancillary and control area services, including the Variable Energy Resource Balancing Service (VERBS) rates for wind and solar resources, the Dispatchable Energy Resource Balancing Service (DERBS) rate, the two

Operating Reserves rates, and the Regulation and Frequency Response rate. The settlement agreement also provides for other limited changes to the rate schedules, as well as BPA's agreement to conduct certain analytical work associated with the future integration of solar generation into BPA's Balancing Authority Area.

BPA asked all entities that intended to be parties to the BP-18 rate proceeding to either sign the agreement or declare their intention to contest the agreement by October 5, 2016. By that deadline, 20 parties signed or agreed not to contest the settlement agreement. No party declared an intent to contest the agreement.

BPA will file the BP-18 generation inputs settlement agreement as part of the BP-18 Initial Proposal. Parties will be given an opportunity to contest the agreement pursuant to a timeline established by the Hearing Officer.

#### D. Financial Reserves Policy

In March 2016 BPA began public workshops to discuss establishing a financial reserves policy to guide management of the level of financial reserves available for risk (financial reserves) for BPA as a whole and for Power Services and Transmission Services separately. BPA received customer comment and feedback and used it to develop a financial reserves policy that will be filed as part of the BP-18 Initial Proposal.

The financial reserves policy is intended to provide a consistent, transparent, and financially prudent method for determining target financial reserves levels and upper and lower financial reserves thresholds for Power Services, Transmission Services, and BPA as a whole. The policy also describes the actions BPA may take in response to financial reserves levels that either fall below a lower threshold or exceed an upper threshold.

#### E. Risk Mitigation Tools

BPA uses risk mitigation tools to buffer against poor financial performance over the rate period to protect the agency's solvency and strong credit rating. The main financial risk mitigation tool BPA relies upon is financial liquidity, which consists of financial reserves and a short-term liquidity facility with the U.S. Treasury.

#### 1. Power Risk Mitigation Tools

For Power Services, BPA proposes to use financial reserves attributed to Power Services and the short-term liquidity facility as primary risk mitigation tools. In addition, BPA proposes to include two rate adjustment mechanisms in the power rate schedules (and in certain ancillary and control area services rate schedules) that may adjust rates in the event Power Service's financial reserves fall below or exceed certain thresholds. The Cost Recovery Adjustment Clause (CRAC) will adjust rates upward to generate additional cash within the rate period if financial reserves attributed to Power Services fall below a defined lower threshold. BPA is proposing to replace the current Dividend Distribution Clause with a provision that expands the Administrator's options for using financial reserves attributed to Power Services when Power Services financial reserves and agency financial reserves are above established thresholds. When available liquidity and the CRAC are insufficient to meet the Power Services Treasury Payment Probability (TPP) standard of at least 95 percent, BPA includes Planned Net Revenues for Risk (PNRR) in Power rates. The TPP is the probability of BPA making its Treasury payments on time and in full each year of the two-year rate period.

In the Initial Proposal, BPA proposes to include no PNRR and to cap the maximum revenue recoverable through the Power CRAC at \$300 million per year. BPA also proposes to continue the National Marine Fisheries Service FCRPS Biological Opinion Adjustment (NFB

Adjustment) and the Emergency NFB Surcharge, given the continuation of litigation regarding the Biological Opinion.

## 2. Transmission Risk Mitigation Tools

BPA proposes to use financial reserves attributed to Transmission Services as the primary risk mitigation tool. BPA also proposes to include provisions for two rate adjustments in the Transmission rate schedules similar to those in the Power rate schedules: (1) the CRAC, and (2) an adjustment that provides options for using financial reserves attributed to Transmission Services when Transmission Services financial reserves and agency financial reserves are above established thresholds. When available liquidity and the CRAC are insufficient for Transmission Services to meet the TPP standard, BPA includes PNRR in Transmission rates. In the Initial Proposal, BPA proposes to include no PNRR and to cap the maximum revenue recoverable through the Transmission CRAC at \$100 million per year.

## **Part V – Proposed BP-18 Rate Schedules**

BPA's proposed BP-18 Power Rate Schedules and Transmission Rate Schedules are a part of this notice and are available for viewing and downloading on BPA's Web site at <http://www.bpa.gov/goto/BP18>.

Issued this 1<sup>st</sup> day of November, 2016.

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Elliot E. Mainzer  
Administrator and Chief Executive Officer

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